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Minerals Management Service
Royalty Management Program
Rules and Procedures Staff
P. O. Box 25165 MS3101
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**Re: Comments on Proposed Regulations - Amendments to Gas
Valuation Regulations for Federal Leases**

Amoco would like to respond and offer comments to the Amendments to Gas Valuation Regulations for Federal Leases published in the Federal Register on November 6, 1995.

An Amoco employee served as the COPAS representative on the Federal Gas Valuation Negotiated Rulemaking Committee (Committee) and Amoco also had input as a member of various other associations that participated in this effort initiated by the MMS. Amoco, because of its involvement with the Committee, would state that many of its recommendations are already included in the proposed rule. We will include in these comments those concerns that were suggested but denied as part of the proposed rule.

As a general rule, it has been a long standing desire of the MMS and Industry that regulations for federal gas valuation be simplified and address the ever changing gas market environment. Covering gas that is first sold as a non-arm's length sale, the proposed rule as published would provide a valuation method nearer the point of production and the producer would not be responsible for tracking the production to the first arm's length sale. Amoco encourages the MMS to adopt the proposed rule for index based alternative valuation methods with the inclusion of the following recommended changes.

Section 202.450

To accommodate data that is readily accessible, the prioritized benchmarks should be reordered as follows: Section 202.450(d)(iv)(C)(1) should be replaced with (3); (2) should be replaced with (1); and (3) should be replaced with (2). In our opinion, the weighted average of the producer's gross proceeds under an arm's length contract for

the current month (if sales occurred) in the field or area, are the most trustworthy indicator of market value.

Section 202.452

Under the proposed rule, it will be necessary to make changes to the reporting requirements for the MMS Form 2014. The changes addressed in this section and all other reporting requirements necessary to comply with the proposed rule should be referred to the Royalty Reporting and Production Accounting Subcommittee of the Royalty Policy Committee. The current agenda prepared by that subcommittee includes addressing these requirements.

Section 206.452(c) and Section 206.453(c)

The MMS has requested comments for improving the benchmarks for non-arm's length sales without an acceptable published index. Amoco encourages the MMS to enact regulations that will not require the producer with a non-arm's length sale to continue the practice of tracking the sale to the first arm's length sale. As the market environment continues to change, the first arm's length sale may be many transactions downstream of the production area. Even though these type of sales should continue to be a small percentage of the market situations, emphasis must be on reducing the administrative burden for both the industry and the MMS.

Section 206.452(g)

Amoco agrees with the statement that "gas valued using an index-based method under 206.454" will not be compared to gross proceeds. Therefore, a provision should also be included in this Section that states that the gross proceeds valuation will not be compared to the index alternative valuation.

Section 206.453(g)

Refer to comment in Section 206.452(g), above.

Section 206.454(a)(2)(iii) and (iv)

Additional wording is needed to clarify that transportation is applicable to all royalty-bearing products. As worded, it implies that the transportation allowance can only be utilized for the residue gas.

Section 206.454(a)(6)

The Committee did not discuss the royalty applicable to contract settlements entered into prior to the effective date of the final rule. Therefore, including this provision as a part of the proposed rule does not follow the agreement between the Committee and the management of the MMS to publish in the proposed rule only those points on which the Committee reached consensus. Comments were requested on how to handle those contracts entered into after the effective date of the rule. Industry has challenged the MMS' Dear Payor Letter on the subject of gas contract settlements and

while this litigation is pending, it would be inappropriate for the proposed rule to take a substantive position on this issue.

Section 206.454(b)

The reference to the term "well" should be expanded to include the inclusive language on Page 18 of the Committee report which states ". . . to which the well, lease, platform, central delivery point, or plant (collectively referred to as well). . .". This language should be included in this section to more appropriately define the production point required to determine the index value.

Section 206.454(e)(6)

The MMS requested comments on what the consequences would be if the final safety net median value is not published within two years. Clearly, equity demands that royalties valued and paid based on the index method should be deemed as final if a final safety net median value is not published within two years. Without this two year assurance provision, the MMS and the payor have not resolved the current issue of uncertainty and finality in royalty valuation. In addition, the safety net procedure should be reviewed three years after the implementation of the final rule to see if additional royalties collected under the safety net calculation have exceeded the cost of performing the function. If so, the safety net requirement should be abolished.

Section 206.454(e)(7)

A specific policy should be published regarding the involvement and activities of the technical review. This is needed so that the payor can understand the process prior to its election to value based on the index method.

Section 206.454(e)(9)(ii)(B)

The percentage should be 65% rather than 50% (per Committee report and the percentages stated in the preamble).

Section 206.454(e)(10)(ii)(B)

The percentage should be 30% rather than 50% (per Committee report and the percentages stated in the preamble).

Section 206.454(g)

The Committee agreed that the MMS should determine the eligible zones, after a technical conference, based on factors and conditions recommended by the committee. However, the Final Report also states:

"The committee recognized that this list of factors and conditions is not necessarily all inclusive when determining zones but represents a list of significant considerations in making this determination."

Final Report at 52. We note that the Committee voted on an initial list of zones as a single package, including a zone for the San Juan Basin. Although there was considerable discussion regarding the unique characteristics of coalbed methane production in the San Juan Basin, the Final Report and the proposed rules are silent on this important issue. Therefore, MMS, when making a final zone determination, should resolve this issue in a technical conference, giving further consideration to coalbed methane production because of its unique characteristics.

Section 206.456(a)(2)

Amoco agrees that the inclusion of compression downstream of the facility measurement point should be a part of the transportation allowance.

Section 206.457 and 206.459

The proposed language which states that the purchase of an existing transportation system or processing plant which has not previously been depreciated for federal royalty purposes may be depreciated as a newly installed facility is recognition of the many acquisition and divestments that occur in the industry today. Facilities are continually bought and sold and the leases connected to such facilities may be expanded by the new owner to include federal leases. This provision allows the new owner the same allowance provisions as if they had built the facilities.

Amoco supports the elimination of all allowance forms for federal gas production. In order to achieve the full savings of such form elimination by the MMS and industry, the MMS should also publish a similar final rule for oil.

Section 211.18(c)(3)

The exception for operating rights owners to pay on takes must be retained for mixed agreements. In addition, the final rule should include the regulations covering 100% Federal agreements. The 100% agreement rule for this regulation should include the actual concurrence reached by the Committee (see page 63 of the Committee report) which "provided for an exception for lessees to request approval to pay on entitlements."

Finally, Amoco recommends that the Federal Gas Valuation Negotiated Rulemaking Committee be reconvened to address federal gas valuation if the responses to the proposed rule are deemed by the MMS to require major changes from that proposed.

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